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ISSUES FACING BOSTON: 1984  
HOUSING

by

Phillip L. Clay

Prepared for the John W. McCormack  
Institute of Public Affairs

December, 1983

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Issues facing Boston, 1984

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**HOUSING**

by

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## Issues Facing Boston: 1984

### HOUSING

The housing problem in Boston is one issue facing the new council which offers both opportunity and complexity. In a city where 70 percent of the households are tenants, where incomes are low and housing expensive, and where major demographic and economic changes are taking place, easy answers are not available. But housing, unlike other issues, is a matter over which the city has some leverage so that progress will be noted and appreciated by an increasingly attentive electorate.

In recent years, the city has not faced the challenge of greater local discretion in housing policy (made available by the abdication of the federal government), addressed the worsening condition in the stock, or offered solutions to problems of affordability. As a result your tenure with the council begins not in the mode of fine-tuning a reasonably good machinery, but at a point when the situation requires developing from scratch a city housing policy and the machinery to implement it.

For three decades Boston's housing initiatives were dictated mainly by the federal government. Federal program guidelines determined the type and client group for housing. The feds set the price and conditions of tenure. Federal programs provided most of the resources for housing development for low and moderate income families and for many middle income families as well. The city role was reduced largely to grant writing and implementing federal initiatives.

In recent years the federal government has begun to withdraw resources and direction. As a result the responsibility for promoting housing rests with the city. If there is to be any advancement in housing opportunity, local government will have to take the lead. We are fortunate in Massachusetts that the state plays an active role which would be expanded even more under pending legislation.

In the pages that follow, we will offer a number of observations about specific housing problems faced by the city. The major problem is that the city has no housing policy and no means to deliver housing in an efficient and equitable manner. Authority is spread over more than a dozen departments and the public housing authority is under court supervision due to past official neglect. Court presence is also manifested in other aspects of the city's housing efforts (i.e., fair housing and administration of HUD programs.) These constraints serve both to highlight what has been wrong with housing in Boston in the past and to underscore some of the issues the new Council will have to address.

There are numerous complications to developing a housing policy for Boston. First the city is in the midst of some major demographic shifts which have the effect of changing the character of demand. For example, there has been in recent years a tremendous growth in small nonfamily households which helped to increase demand even as total population declined. There has been a tremendous increase in the proportion of the population who are minority group members and that share will rise in the 1980s.

Boston is a city of renters. Seventy percent of its households rent, and three-quarters of the renters have incomes low enough to qualify for the old Section 8 program. This underscores that Boston is a relatively poor city.

There are other problems. The city's vacancy rate is critically low, less than five percent. Units that low and moderate income residents can afford are being depleted on the one hand by disinvestment and on the other by reinvestment. Nonluxury development is risky, and condominium conversion stands increasingly as a way out for landlords who want to capture the upscale ownership market. Developers have learned that even when development is feasible there is no straightforward process. Simple initiatives to address these issues are not likely to move us forward or establish confidence that the city is both competent and compassionate.

With this in mind, this paper proceeds with sections that address the following:

- a discussion of the background of Boston's housing problem;
- a presentation of primary decision options and potential strategies; and
- an outline of organizational and resource issues facing the administration.

My colleagues will offer some analyses of two issues that are of special current interest--linkage and affordability.

## **The Housing Problem in Boston: Context and Issues**

### The Housing Stock

Although substantial residential redevelopment activity occurred in the 1970s, the overall supply of housing in Boston has not changed significantly in the last 20 years. In 1960, 239,000 housing units existed. By 1970, the total stock declined to 232,000 units. New construction in the following decade, however, brought the supply to 240,000 units in 1975 and to 241,000 units in 1980.

Changes in Boston's housing stock over the last 10 years, summarized in Table 1, include a net decrease of 18,536 units in the private rental stock. While new units were also built during the period, they were almost all luxury housing; in contrast, 11,000 units were demolished, including 8,700 units in small structures. The conversion of rental units to condominiums or owner-occupied units, reflecting the increased demand for homeownership, reduced the stock of private rental housing by another 7,000 units.

Growth in the number of subsidized rental units exceeded the loss of private rental units during this period. To the base of 22,000 subsidized units in 1970, the Section 8 program added 2,700 units; other subsidy programs, including those of the Massachusetts Housing Finance Agency, contributed an additional 17,300 units. This net increase of about 20,000 units brought the total number of public or assisted units to 42,000 in 1980. Since many of the private rental units lost over the decade were



TABLE 1

CHANGES IN BOSTON'S HOUSING STOCK, 1970-1980

Type of housing	Change in no. of units	Reason
Private rental	(1970) +150,604	
	-8,700	Demolitions (1-4 unit structures)
	-2,100	Demolitions (apartments)
	-2,700	Rental to Section 8
	-713	Rentals merged into condominiums (loss)
	-3,702	Condominium conversion
	-3,721	Increase in owner-occupancy
	+3,100	New construction
	(1980) +132,068	(net decrease of 18,536 units)
Subsidized rental	(1970) +22,000	
	+2,700	Rental to Section 8
	+17,300	New construction of subsidized units
	(1980) +42,000	(net increase of 20,000 units)
Owner-occupied	(1970) +59,584	
	+3,702	Condominium conversion
	+877	New construction and adaptive re-use
	+3,721	Increase in owner-occupancy
	(1980) +67,884	(net increase of 8,300 units)

Source: Summary of official reports in Boston Housing Policy Workshop, "Displacement in Boston's Appreciating Neighborhoods: The Interaction of Government Policies and Market Forces," Harvard University, JFK School of Government, 1981, p. 35.



occupied by people ineligible for subsidized units, this increase in assisted units does not totally compensate for decreases in the private housing stock.

With the overall vacancy rate at more than six percent for most of the 1970s, low- and moderate-income households could still find suitable housing. Toward the end of the decade, however, rising operating costs and stable rents forced many subsidized units out of service. Vacancies in public housing almost doubled between 1975 and 1980, from 14 percent to 27 percent. Many of the units were taken out of service and boarded up. Demand among households with moderate or low incomes thus rose as gentrification and decontrol of previously rent-controlled stock made private housing unaffordable for many tenants. Extensive condominium conversion activity in the late 1970s exacerbated this trend. By 1980, the rental housing market in Boston was in crisis.

While the owner-occupied housing stock expanded by 8,000 units during the 1970s, new construction or adaptive reuse accounted for fewer than 1,000 units of this growth: Almost 45 percent resulted from condominium conversions and a comparable number from occupancy of previously rented units by new owners. Although condominium conversions and increased owner occupancy contribute to the revitalization of declining neighborhoods, the resulting displacement of former tenants is a matter of growing concern. Fewer than one-third of the 3,700 condominiums in Boston were purchased by their previous tenants, and some of those who did buy no doubt would have preferred to continue renting. Even considering that 25 percent of all renters ordinarily move each year, a significant number of condominium conversions thus entail "forced moves" in a market where the supply of private rental housing is diminishing. Renters may also be forced to move when a new building owner occupies a unit, a frequent occurrence in neighborhoods experiencing upgrading.

These changes in Boston's housing inventory imply that a substantial decrease has occurred in the private rental stock. There has been no commensurate reduction, however, in the demand for rental units. Subsidized rental housing has thus increased its share of the total occupied stock from 9.4 percent in 1970 to 17.4 percent in 1980. Almost one in five Boston households currently occupies a subsidized housing unit, a level that is extremely high by both historic and national standards.

In 1980, the vacancy rate in Boston's housing market stood at 9.5 percent, including all existing units not occupied. If units not currently for sale or rent and boarded-up or long-term vacant units are excluded from the calculation, only about 9,000 vacant units are actually available for occupancy. This translates into a vacancy rate of 3.7 percent, low by any standard of market behavior. Based on data from other cities, possibly two-thirds of the 14,000 units that are currently off the market are retrievable, i.e., more than 9,000 units. While the availability of these housing units--most of which are in neighborhoods where low- and moderate-income families already live--might decrease the overall vacancy rate somewhat, Boston's housing market is nonetheless extremely tight.

Some neighborhoods have been relative gainers and others relative losers of occupied housing units in the past few years. The neighborhoods that have experienced residential development include the Back Bay, Fenway, Waterfront, parts of Charlestown, South End, and Downtown. The neighborhoods where significant housing losses and vacancies have occurred are Mattapan, Jamaica Plain, Dorchester, and Roxbury. (Although Roxbury registered a five percent growth in total units during the 1970s, this gain reflects increases in the number of publicly assisted housing units. Tremendous losses occurred in its private stock.)

### Housing Demand and Consumption

Housing consumption patterns result from the interaction between demand and supply. On the demand side, one of the most important variables is the distribution of household types by income. Each household type corresponds to an optimal size and type of housing, and the distribution of types in the population implies a certain optimal housing mix; household income, however, interacts with housing supply to move demand away from this optimum. It is important to note that housing demand can be either sub-optimal, i.e., when household incomes are insufficient to pay for enough space in the right place, or super-optimal, i.e., when extra incomes are used to pay for luxury housing or perhaps for more housing than households need.

On the supply side, the major variables are the physical characteristics of the stock and housing costs, which are determined by the adequacy of supply and by the costs of maintaining existing dwellings or investing in rehabilitation or new construction. When the match between supply and demand is poor, and particularly when it leaves a substantial proportion of households unable to afford appropriate housing without undue sacrifice, the problem requires public attention.

The major demographic trends discussed previously have important implications for housing market dynamics. During the 1970s, Boston experienced significant growth in the number of one- and two-person households and a decline in the number of families, especially those with children. The individuals who formed new households during this period were largely between 25 and 35 years old, a group disproportionately likely to demand homeownership as it ages. This increased demand for homeownership encourages property owners to convert their units to condominiums, or households to become owner-occupants of rental structures.

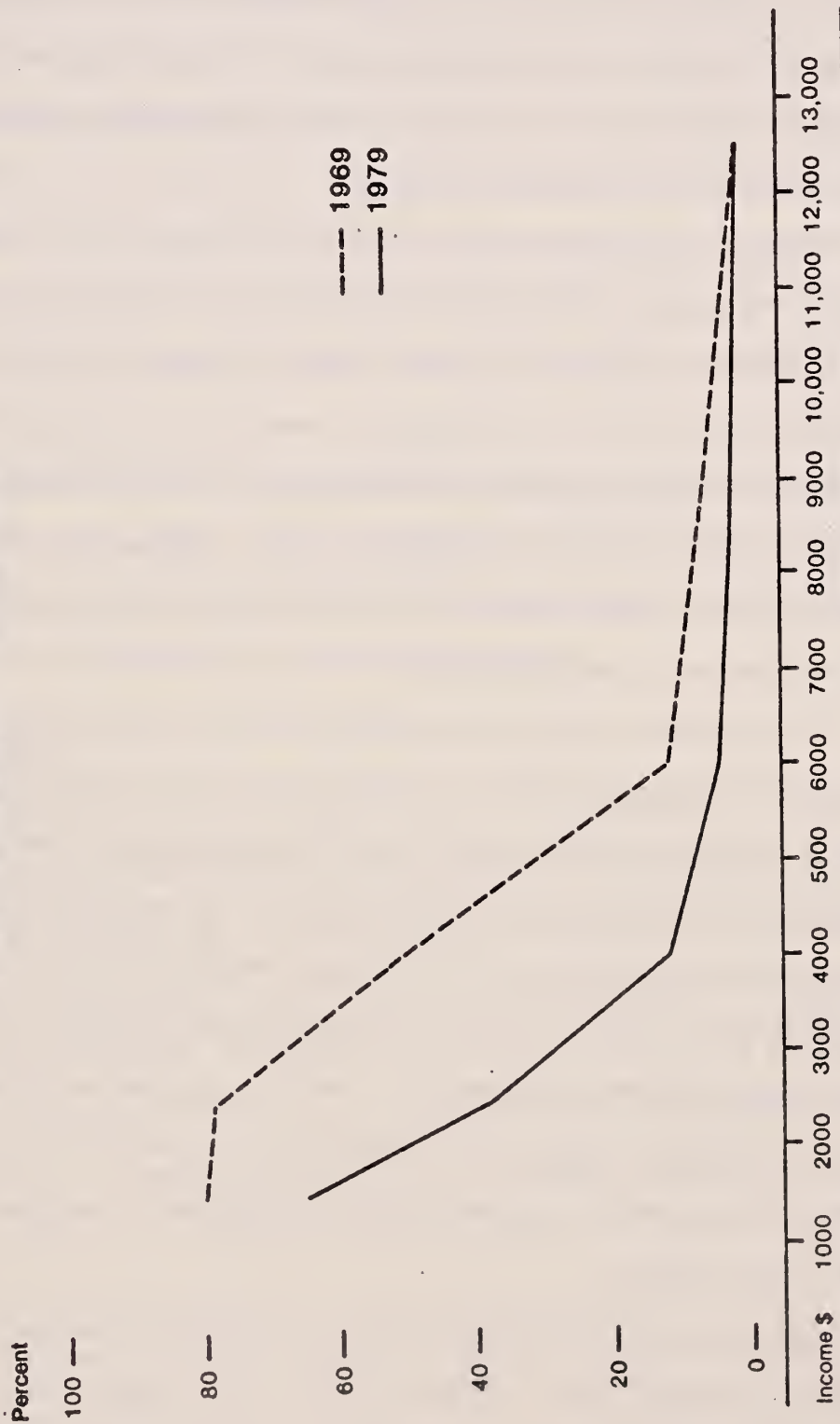


Another major demographic change in Boston has been a substantial increase in the number of Black, Hispanic, and female-headed households. The homeownership rate among these groups has remained low, reflecting their relatively low incomes. The result, so far, is that such households represent a disproportionately large share of the tenants of subsidized units added to Boston's housing stock since 1970. This group is also the source of continuing demand for larger family-sized rental units.

As it did across the country, the cost of housing increased dramatically in Boston over the past decade. Rents rose 91 percent between 1970 and 1980, while home values rose 84 percent. In both cases, these increases were significantly lower in the central city than they were in the suburbs. Several Boston neighborhoods experienced rent hikes of over 100 percent for advertised one- and two-bedroom apartments. Such enormous increases suggest a major change in the types of households that can afford to live in certain neighborhoods, a point that will be discussed more thoroughly below. A substantial fraction of Boston households paid more than 25 percent of their income to rent housing in 1979; among those with incomes under \$6,000, this fraction exceeded half of all such households. Between 1969 and 1979, there was some relief for tenants paying extremely high proportions of their income for rent: As Figure 1 illustrates, the fraction of households at all income levels paying more than 35 percent of their incomes for rent fell during the decade. Changes in the formula for subsidized housing rents and increases in income assistance to the elderly, both of which substitute public for private funds, account for much of this improvement.

The rent burden on low- and moderate-income occupants of private rental housing nevertheless remained relatively heavy throughout the 1970s. Restrictions on the public funds (i.e., public and subsidized housing programs, plus rent subsidies) that responded to this burden are probably a better explanation for the modest rent inflation that occurred than, say, rent control. Limits on the levels of rent tenants can pay

FIGURE 1  
PERCENTAGE OF BOSTON RENTER  
HOUSEHOLDS PAYING OVER 35 PERCENT  
OF INCOME FOR RENT, 1969 AND 1979



Source: Appendix Table A-8

discourage the private sector from supplying additional rental units. Investors who could not continue to provide housing at rents that would attract tenants and still provide a reasonable profit--especially given the expanding supply of subsidized housing--therefore either disinvested or moved toward condominium conversion. Rents in the remaining units were relatively stable.

Increases in private market rents have also affected the demand for public housing. The waiting list for Boston Housing Authority (BHA) units currently includes 7,000 households, 15 percent more than it did a year ago. Moreover, 40 percent of the new applications are from the working poor, whereas until recently the vast majority of applicants were from welfare or elderly households. Because occupied BHA units have experienced no substantial upgrading, the rising demand for public housing likely reflects shrinking opportunities for the poor in the private rental market rather than the attractiveness of subsidized units.

This discussion would not be complete without noting the plight of the homeless. Detailed information about them is limited and the size of the problem is in dispute. There is no dispute, however, about the fact that thousands of individuals and hundreds of families are temporarily or permanently out of the market. They represent both a group in need and the end result of a housing system that fails to work well for all. Addressing their problem requires creative approaches--outreach, temporary and emergency housing, supportive services, etc. Long term solutions are embedded in the larger issue of increasing the supply of affordable housing especially for the very low income household. Fortunately, the state is exploring initiatives in this area. It remains to the city to follow through.

Despite the lack of adequate data for precisely projecting housing demand in Boston, we can draw a few conclusions about future housing market conditions. The number of households in Boston is likely to remain stable or decline very slowly



throughout the 1980s. The demand for housing among minorities will continue to grow, a trend that can be inferred from the age structure of the city's populations. As young minority people mature into adulthood, and assuming there is no large-scale minority migration to the suburbs, we expect that the minority share of the total Boston population--and their share of total demand for housing--will increase. If the incomes of these groups remain lower than those of whites, their share of total demand will become increasingly focused on low- and moderate-cost housing. This expansion will take place increasingly in the private market and outside existing concentrations of these groups.

Demand for homeownership among young professionals and small households is also likely to continue in the 1980s. This will maintain pressure for condominium conversion and for owner occupancy of units that renters currently hold. The result will be further displacement of renters in selected housing submarkets.

### Housing Investment

One might expect that the low vacancy rate and the prospects for moderate growth in housing demand would lead to some expansion in the supply of housing, especially through rehabilitation of structurally sound units currently off the market. Because of the high cost of improvements, however, such development is unlikely to occur outside the luxury market. Substantial rehabilitation (i.e., gutting a building, adaptive reuse, or retrieval of a "lost" unit) now averages better than \$55,000 per unit in Boston. Assuming a 15 percent interest rate and including operating costs, this translates into a market rent of more than \$1,000 per month. To afford such a unit under the 30-percent-of-income criterion, a household would need an income over \$41,000 per year. If the same unit were to be subsidized, special construction standards would raise rehabilitation costs per unit to about \$65,000. With a deep interest subsidy of 7.5 percent, the "fair market rent" would be \$740 per month. (The tenant would pay

an amount equal to 25 percent of his or her income for the unit, and the government would pay the rest.) While moderate rehabilitation of course entails lower costs, rents would still be nowhere near the \$200 to \$230 per month that the median Boston household currently can afford: According to 1980 census data, more than half of Boston's renter households earn less than \$12,000 per year. Even a rent of \$250 is too low to amortize a loan on any significant rehabilitation project.

Current tenants who can afford to pay higher rents, say \$450 to \$600 per month, are more often interested in buying a home or condominium. To expand the supply of rental units to meet the needs of this group would be risky, since their numbers are not likely to grow significantly and may in fact contract when a drop in interest rates allows them to purchase homes.

Despite the economic disincentives that appeared after 1977, a great deal of residential development activity has occurred in Boston over the last decade. In the context of almost one-quarter million housing units, however, total development in the private market was limited to less than 10 percent of the stock. Given the current low vacancy rate and the fact that most of the simpler rehabilitation opportunities have already been exploited, possibilities for new, non-luxury private development are extremely limited. Retrieval of additional units from the supply of vacant units will be expensive and, in most areas, economically risky without deep subsidy. At the same time, housing must compete with other social needs for increasingly limited public funds, constraining development activity still more. There is, of course, a great deal of housing where minimal rehabilitation would improve the quality of the stock; such rehabilitation, however, is still not cheap and does not add to the overall supply of housing. Conserving this stock is important to keep an already serious problem from becoming more difficult.

## **A Housing Policy for Boston: Elements, Options and Strategies**

The litany of problems and contextual features outlined above calls for a comprehensive policy to address housing issues in the city. What are the elements of such a policy and what are the tools that will effectuate a policy for the city?

### Increasing the Supply of Affordable Housing

Most housing units added in recent years have been the result of federal subsidies. That source of adding units has dried up. The challenge is to find a way to produce units with nonfederal subsidy funds and to encourage small investors, mainly non-professional investors, to create additional units from the existing stock by recapture, conversion and other means. For this to work important steps will have to be taken by the city. The same creativity that made the downtown boom must be applied toward creating housing in the neighborhoods.

### Policy Tools

- encourage the conversion of non-housing structures to residential use;
- provide incentives for inclusionary development in new construction projects;
- promote cooperative housing to increase non-rental option for low and moderate income households;
- reorganize the city's property disposition process so that abandoned and tax-foreclosed properties can be recaptured;
- encourage in-law apartments;
- explore the potential role of manufactured housing in the city; and
- advocate for Boston in new state and federal housing initiatives.



### Conserving Existing Resources

In recent years more units have been lost from the housing stock than have been recaptured from it. The age of the stock, the high percentage of the owners who are elderly on fixed incomes, the marginal condition of many structures, and the high cost of replacement underscore the need to give priority attention to conserving the existing resources. These are valuable and threatened assets.

The new administration must figure out ways to make limited dollars do what federal largess has not done in the past. During the 1970s, for example, we did a very good job of capturing federal dollars to build new units, but did precious little to stop the loss of thousands of perfectly sound units. In a city where many of these structures are under the control of small, nonprofessional households, the conservation effort requires a creative mixture of incentives (regulatory, subsidy, technical assistance) as well as sanctions. It may well turn out that improving this confidence and sending this strong message will be more important than some of the tools which may be developed.

### Policy Tools

- target rehabilitation resources (including new state and federal initiatives) to owners of smaller properties and to those where moderate rents can be maintained;
- target technical and financial resources to low and moderate income owners of 2-4 unit structures;
- support the BHA in its modernization and redevelopment efforts, and in retaining the stock for low-income residents;
- reconfigure and expand the coverage of rent control to protect tenants while providing incentives for maintenance and rehabilitation; and
- restrict the expansion of institutions into residential neighborhoods.

### Promoting Community Development

The housing issue is part of the larger issue of neighborhood development. Those of us interested in housing and development face the question: How do you build strong communities where there is now weakness and where the demographic forces of racial change, population decline and the flight of families predominate? These issues will have to be dealt with. As long as they are unresolved, private individual investment and public spending will be largely ineffective or misdirected.

The city will have to develop plans with each neighborhood. The plan will have to address the needs of the neighborhood and the strategy for physical and social development. A neighborhood-focussed planning process is an important process both for its help in guiding the use of public resources and its signal to the private sector about where the neighborhood is headed.

### Policy Tools

- develop a plan for community development in each of the city's neighborhoods;
- target increased services to neighborhoods where services have not been maintained in the past and where such services would spur resident confidence;
- develop anti-arson initiatives;
- integrate public housing development in each neighborhood into community development plans and housing strategies for the neighborhood; and
- encourage experimentation and innovation in community development programs.

### Making Housing Accessible to All

Race and the conflicts and tensions as well as the legal issues around it complicate both public and private initiatives in housing. Boston's problems in this regard are legend. Fair housing by itself is not a sufficient solution for minorities, but it is a necessary one that Boston has not addressed. Minorities must be backed in their search for shelter. Whites who resist must know that they won't have political and legal sanction in their resistance. Institutions, realtors and others must know that they are under scrutiny and that violation of the law will be prosecuted. Problems have persisted in the past precisely because no such clear message has ever been sent.

### Policy Tools

- support the Boston Fair Housing Commission in enforcing the law and urge the state to enact a home rule petition that expands the authority to enforce equal access to all housing;
- support the Community Disorders Unit;
- set goals for minority access to all new housing opportunities generated by city programs; and
- support private and civic efforts aimed at improving race relations.



### Advancing Public Housing

One in ten units in this city is a public housing unit. Public housing is the largest and most dependable source of housing for the poor. The Receiver appointed by Judge Garrity to deal with the incompetence and neglect of the past administrations has done an excellent job at redirecting the resources and improving management of the authority. But the receiver arrangement is not ideal. It is an unfortunate response to a bad situation. The next administration should be prepared to submit to the court a plan for resuming executive responsibility for the agency. Part of such a plan is administrative, but a larger issue is the official posture with respect to housing needs of the poor. The city must include public housing as part of the city's neighborhood and housing policy and not view the developments as reservations for the poor that are to be contained and isolated. No initiative on the part of the tenants or advocates will be sufficient without a strong city commitment.

The next Mayor and Council will also have to do some advocacy with the federal government and state government regarding operating funds and additional capital funds to redevelop several of the developments where critical modernization is needed.

### Promoting Partnerships

While the public sector is important, housing is really produced, maintained and delivered by the private sector. The next administration should engage and lead others to act. A major initiative in the city will require both public and private participation. The Boston Housing Partnership is a belated effort in this regard by the business community, the city and community groups. The city, thus far, has indicated support for it, but the new Council should view this as merely a building block for even greater joint efforts. In particular, you will want to more directly engage the energies of community-based groups and draw resources from the private sector by linkage, joint ventures and other means.

### Policy Tools

- support the Boston Housing Partnership;
- promote the involvement of community-based organizations in housing development activities, including offering assistance in capacity-building for neighborhood organizations; and
- support the expansion of the Boston Neighborhood Housing Services to serve additional neighborhoods and to include multi-family housing in their efforts.

Promoting affordability should also be part of the city's housing policy. It is not addressed here specifically, as a colleague's presentation will detail options in this area.

The foregoing section presented a list of policy areas and options which might prove useful to the city in the months and years ahead. While it is not important to adopt each of the policy options enumerated (the ones listed here are illustrative only), it is important that whatever the city does, that it do something in each of the areas, that the activities be comprehensive and complementary, and that creativity, fairness and efficiency characterize the total effort.

### **The Housing Delivery System**

Anyone dealing with Boston knows how difficult it is to develop in this city. The new administration must reorganize. It should create a super agency with responsibility for all aspects of the housing and community development process. We might even say that the city needs a housing czar who reports directly to the Mayor and is in charge of all relevant agencies and resources regarding housing, from the BRA to Real Property. The new federalism has made local communities responsible for housing and we need a mechanism which functionally expresses that fact.

For example,

1. A single official is responsible for developing a policy rather than each agency going its own way.
2. Scarce resources are more efficiently used as certain functions are not duplicated.
3. Private developers and citizens alike can understand the direction of city policy.
4. Incentives for corruption are fewer since there would be fewer ways to "end run" the system and less of a need to "expedite" timely response from several agencies.



For both symbolic and practical reasons, I would urge the speedy reorganization of the various housing and related community development activities. The expectations in this city with respect to housing are enormous and contributed in many cases to the explanation for why you are here as opposed to your former opponents. A reorganization that functionally expresses the city's strong commitment to housing would send a very powerful and positive signal which itself will go a long way to generating solutions to our housing problem.

### **Resources for Housing**

While financial resources to tackle the housing problems in the city are not adequate, neither is the city helpless. There are numerous sources of dollars which will, as part of a comprehensive plan and an efficient city housing operation, go a long way towards solving problems enumerated in previous sections of this paper. The resources include:

- entitlement funds from CDBG of at least \$18 million per year, plus \$20 million or more unspent from previous years;
- UDAG grants;
- production and tenant subsidies from 1983 federal housing act;
- funds from "linkage;"
- payback from former UDAG's;
- state funds, such as Section 707 and 1983 initiatives; and
- MHFA.

Money is not the only resource that is important. Regulatory authority, property and land disposition, developer competition and selection all represent means by which the city can affect development. When these are used in conjunction with public money and private investment, housing progress can be made.

## Conclusion

The city's stakes in the housing area are enormous. When residents feel good about their housing, their perspective and feeling about the whole city change. Their feelings about services, safety and taxes are different. The elderly feel more secure, families are more confident, the young are more hopeful. No policy area under the city's control offers so much leverage on improving the quality of life in the city. The new Mayor and Council must move boldly to capture the high ground in this area, and they must send a strong message that a new order is in place. The plan and administrative structure should reinforce good words. In taking such actions quickly, the city will unlock energy in the public sector, the private sector and the community sector which in itself will represent the major resource for housing in the city.









